

**IMPACT OF THE PANDEMIC ON INFLATION PROCESSES
(ВПЛИВ ПАНДЕМІЇ НА ІНФЛЯЦІЙНІ ПРОЦЕСИ)**

Магар Д. Є. – студентка групи ПУА 1/1

Науковий керівник – Орлова О. В., ст. викл. кафедри іноземних мов МНАУ

The article deals with the impact of the coronavirus pandemic on world inflationary processes, the causes of short-term inflation in commodity prices. The demand and prices of goods, the growth of food inflation and health inflation of countries are analyzed and compared.

Key words: *inflation, inflation processes, pandemic, covid-19, economics.*

The coronavirus COVID-19 pandemic is the defining global health crisis of our time and the greatest challenge we have faced since World War Two. Since its emergence in Asia in 2019, the virus has spread to every continent except Antarctica.

But the pandemic is much more than a health crisis, it's also an unprecedented socio-economic crisis. Stressing every one of the countries it touches, it has the potential to create devastating social, economic and political effects that will leave deep and longstanding scars [1].

Amid the challenges brought about by the COVID-19 pandemic and the stringent measures taken to contain it, inflation concerns are surfacing. This is understandable, given potential disruptions to the supply of a range of goods and given the trillions of government dollars being employed to stabilize global economies.

For now, though, the greater likelihood is disinflation—a slowing in the rate of inflation [2].

Producer prices have been falling despite recent COVID-19 supply-chain issues [3].

Worries about soaring prices start with the observation that virus-fighting measures choke off production. Crudely put, inflation is the result of too much money chasing too few goods. At the peak of the pandemic and quarantine, the number of goods and services available for purchase fell. Many service industries were closed. The virus has disrupted and is disrupting the supply of certain foods [4].

During the lockdown phase, the epidemic and associated lockdown measures can affect the supply and demand of certain products, and hence, their prices. An obvious example is food and medical goods. Short-term price inflation of such goods can be driven by a number of factors.

One factor is the extent of price gouging in high-demand goods as panic buying and hoarding ensue (for example, sanitizers, masks, medical supplies, pain relief medications).

A second factor is dependence on migrant workers in the production process. Prices of certain products (for example, agricultural goods) can increase if supply is disrupted because of labor shortages resulting.

A third factor is the extent of reliance on imported critical goods since this can expose countries to inflation from abroad or to pass-through if countries witness sharp depreciations as a result of outflows driven by risk-off sentiments. This is bound to be especially important for emerging market economies and developing countries.

A fourth factor is the possibility of a hoarding equilibrium in international trade as countries fail to coordinate their emergency policies. A hoarding equilibrium in food and medical supplies among countries can arise, if there is a fear that supply disruptions might occur (or get worse) in these industries in the future. If exporting countries anticipate that they will not be able to import critical goods if they need, they might start hoarding and avoid exporting these goods in the present.

According to the World Trade Organization, as of the end of April 2020, 80 countries and customs territories had introduced prohibitions or export restrictions as a result of the COVID-19 pandemic. Most export prohibitions and restrictions focused on medical supplies (for example, face masks and shields), pharmaceuticals, and medical equipment (for example, ventilators). The UN has warned that these and other COVID-related measures could cause a global food shortage.

Despite the potential increase in the prices of some critical goods, the impact on overall inflation during the mitigation phase could be muted. Before official lockdowns came into effect, demand for some “contact intensive” goods and services (for example, restaurants, gyms) had been declining already due to individuals’ response to COVID-19 risk. This behavior and the subsequent official lockdowns resulted in massive unemployment and income loss intensifying the fall in demand, and spreading it to other sectors.

This fall in demand combined with high uncertainty could create deflationary pressures especially in advanced economies. The dynamics could, however, be quite different in emerging markets. Supply disruptions combined with currency depreciations might lead to an increase in inflation even during the containment period [5].

During the early days of the COVID-19 outbreak, demand for pandemic-related products (preventive medical supplies, household cleaning supplies, over-the-counter healthcare products) surged in many countries (Figure 1).

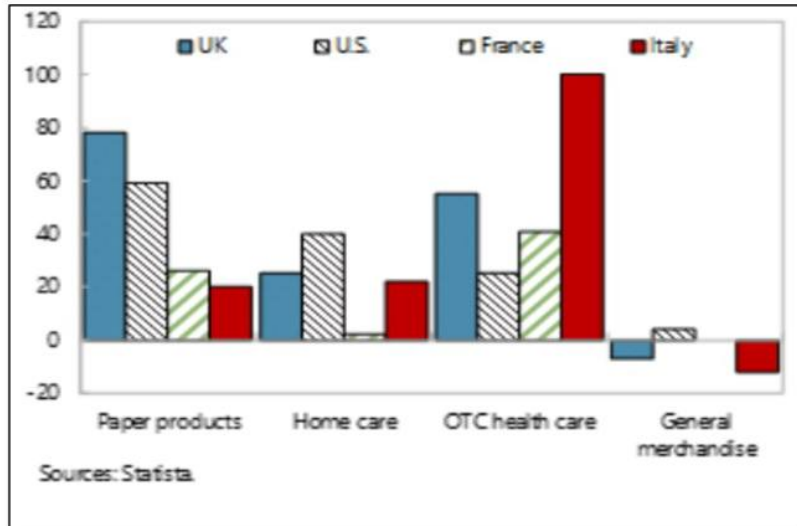


Figure 1. Demand for pandemic-related products surged

As a result, prices of some specific goods (for example, face masks, bleach, non-prescription antiviral medication) went up in some countries. Prices rose by as much as 200 percent for medical face masks (Figure 2).

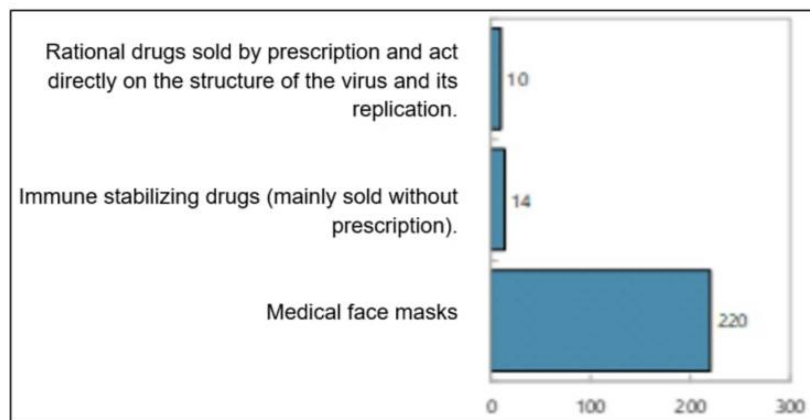


Figure 2. Price of pandemic-related products rose

Looking at consumer price index (CPI) categories (which provide information at a less-granular level than individual items), one can detect some increase in medical products, appliances, and equipment in Europe in April and a bit later in June in the United States (Figure 3).

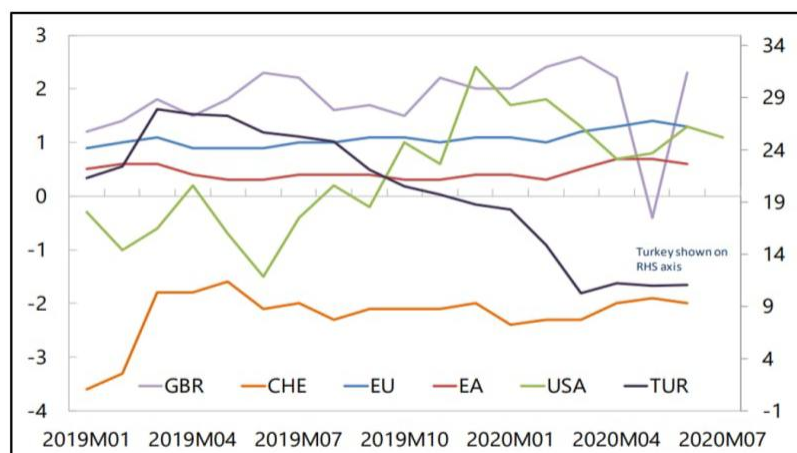


Figure 3. Medical supply inflation rose in the EU but not the US

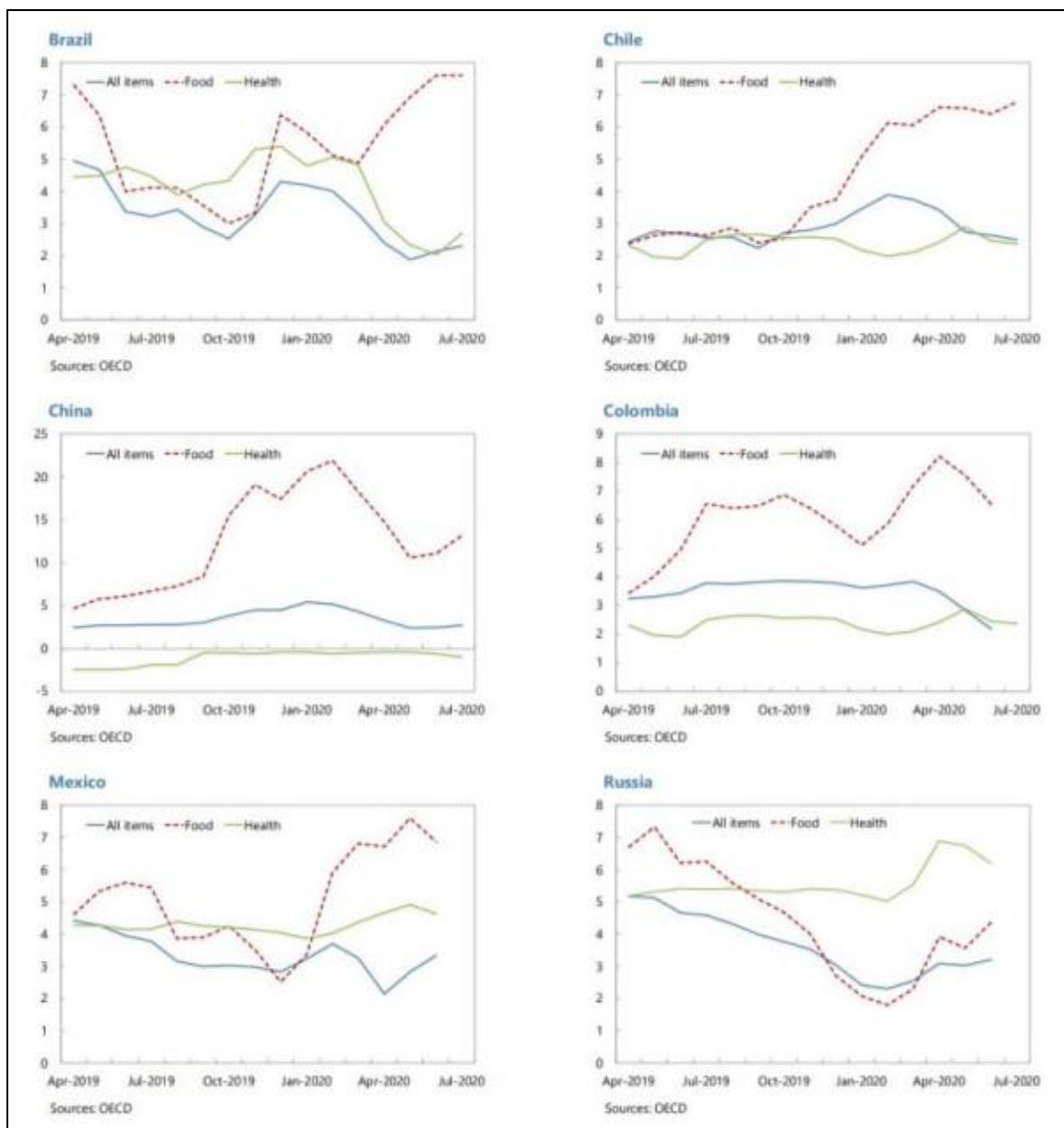


Figure 4. Patterns in other regions also suggest a rise in food inflation but not in health inflation (except Russia).

A demand may indeed overreact to the supply shock, such as those experienced during a pandemic, and lead to a demand-deficient recession [6].

As an important driver of the inflation process, inflation expectations must be monitored closely by policymakers to ensure they remain consistent with long-term monetary policy objectives [7].

The coronavirus pandemic, and the supply shock that it has induced, will mark the dividing line between the deflationary forces of the last 30 to 40 years, and the resurgent inflation of the next two decades [8].

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ADAM SMITH: THE FATHER OF ECONOMICS (АДАМ СМІТ: БАТЬКО ЕКОНОМІКИ)

Нехайчик Є.Є. – студентка групи ПУА 1/1

Науковий керівник – Орлова О.В., ст.викл. кафедри іноземних мов МНАУ

The article is devoted to the world famous economist, philosopher, and writer - Adam Smith who is considered to be the father of modern economics. Biography and his scientific activities are analyzed and given.

Key words: *economics, economist, economic theory, gross domestic product, concept.*